

**CALIFORNIA HEALTH FACILITIES FINANCING AUTHORITY**

**The HELP II Program**

**EXECUTIVE SUMMARY**

<b>Applicant:</b> Del Norte Clinics, Inc. (DNC) 935B Market Street Yuba City, California 95991 Sutter County		<b>Amount Requested:</b> \$376,000 <b>Requested Loan Term:</b> 5 years <b>Date Requested:</b> April 24, 2003 <b>Resolution Number:</b> HII-148	
<b>Project Site:</b> Same as above <b>Facility Type:</b> Community Clinic			
<b>Use of Loan Proceeds:</b> HELP II Loan proceeds will be used to purchase computer equipment.			
<b>Type of Issue:</b> HELP II Loan <b>Prior HELP II Borrower:</b> No, however DNC is a borrower in the Authority's 1994 STARTS program. <b>Payments Current:</b> Yes			
<b>Financial Overview:</b> DNC's income statement exhibits a positive trend in total revenues and increased net assets over the review period. DNC's balance sheet, although slightly leveraged is strong with good liquidity and a very solid projected debt service coverage ratio of 3.75x.			
<b>Sources of Revenue:</b> (FYE 6-30-02)		<u>Amount</u>	<u>Percent</u>
Net patient service	\$14,393,700	72.9%	
Grants	5,272,900	26.7%	
Other	<u>66,400</u>	<u>0.4%</u>	
Total revenue	<u>\$19,733,000</u>	<u>100.0%</u>	
<b><u>Estimated Sources of Funds:</u></b>		<b><u>Estimated Uses of Funds:</u></b>	
HELP II loan	\$376,000	Purchase equipment	\$391,300
Borrower funds	<u>20,000</u>	Miscellaneous	<u>4,700</u>
Total Sources	<u>\$396,000</u>	Total Uses	<u>\$396,000</u>
<b>Legal Review:</b> No information was disclosed to question the financial viability or legal integrity of the Applicant.			
<b>Staff Recommendation:</b> Staff recommends the Authority approve a resolution for a HELP II Loan in an amount not to exceed \$376,000 for a term not to exceed 5 years for Del Norte Clinics, Inc., subject to the standard HELP II loan provisions and Cal Mortgage's approval to incur additional indebtedness.			

**STAFF SUMMARY AND RECOMMENDATION  
Del Norte Clinics, Inc.**

**April 24, 2003  
Resolution Number: HII-148**

**I. PURPOSE OF FINANCING:.**

*Purchase of Computer Equipment*.....**\$391,300**

DNC proposes to purchase the Computer Processing Unlimited (CPU) MedFM V5.2 management system hardware. The current process of monitoring health measures requires a great deal of manual effort. The facility states that the improved practice management system will contribute to better patient care through enhanced case management; more accurate medical records; and improved interface among health care disciplines in-house and by referral. DNC states that the greatest advantages of upgrading the computer equipment will be realized in the reduced conversion effort and the seamless continuity provided to its users. The total cost of the equipment is expected to be \$391,300, with \$376,000 financed by the HELP II loan and \$15,300 from DNC's contribution.

*Authority fee*..... **\$4,700**

*Total*..... **\$396,000**

**Financing structure:**

- 5-year fully amortized loan in the amount of \$376,000.
- 60 equal monthly payments of approximately \$6,756 (total annual payments \$81,072).
- Total interest payments of approximately \$29,374.
- UCC-1 filing with the Secretary of State.
- A second position on corporate gross revenues (Cal Mortgage is in first position).

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## II. FINANCIAL STATEMENTS AND ANALYSIS:

### DEL NORTE CLINICS, INC.

#### STATEMENTS OF ACTIVITIES

##### UNRESTRICTED

	<u>Feb 28</u>	<u>For the Year Ended June 30</u>		
	<u>2003</u>	<u>2002</u>	<u>2001</u>	<u>2000</u>
<b>Revenue:</b>	<b>(Unaudited)</b>			
Net patient service revenues	\$ 9,738,166	\$ 14,393,700	\$ 13,370,900	\$ 10,584,100
Grants	3,790,526	5,272,900	4,049,000	4,006,900
Other	55,996	66,400	87,600	87,600
Total Revenues	<u>13,584,688</u>	<u>19,733,000</u>	<u>17,507,500</u>	<u>14,678,600</u>
<b>Expenses:</b>				
Salaries & benefits	9,722,234	13,647,800	12,568,800	10,762,800
Supplies	662,486	1,065,400	1,148,300	961,400
Contract services	621,813	935,200	752,700	714,200
Insurance	75,750	115,700	100,500	94,300
Bad debts	17,289	76,100	403,900	140,800
Other operating expenses	721,683	919,900	672,800	591,000
Depreciation	291,303	407,600	372,000	300,200
Interest	134,195	224,000	275,700	274,200
Travel	78,271	152,900	159,600	137,800
Space cost	446,155	788,100	696,400	503,100
Total expenses	<u>12,771,179</u>	<u>18,332,700</u>	<u>17,150,700</u>	<u>14,479,800</u>
<b>Change in unrestricted assets</b>	<b>813,509</b>	<b>1,400,300</b>	<b>356,800</b>	<b>198,800</b>
Net Assets Beginning of Year	<u>2,324,200</u>	<u>923,900</u>	<u>567,100</u>	<u>368,300</u>
Net Assets, End Of Year	<u>\$ 3,137,709</u>	<u>\$ 2,324,200</u>	<u>\$ 923,900</u>	<u>\$ 567,100</u>

**DEL NORTE CLINICS, INC**  
**STATEMENT OF FINANCIAL POSITION**

	<u>Feb</u>		<u>As of June 30</u>	
	<u>2003</u>	<u>2002</u>	<u>2001</u>	<u>2000</u>
	<u>(Unaudited)</u>			
<b>ASSETS</b>				
Current Assets:				
Cash and cash equivalents	\$ 854,574	\$ 353,300	\$ 62,600	\$ 321,800
Accounts receivables, net	1,088,395	984,200	1,253,600	940,500
Estimated third-party payor settlements	291,045	275,100	-	-
Grants receivables	1,648,464	281,700	254,200	521,300
Inventory	275,661	264,900	146,100	63,700
Prepaid expenses	167,221	188,900	172,200	181,300
Total Current Assets	<u>4,325,360</u>	<u>2,348,100</u>	<u>1,888,700</u>	<u>2,028,600</u>
Cash whose use is limited	685,790	927,700	759,400	653,200
Property & equipment, net	<u>4,953,856</u>	<u>4,750,800</u>	<u>4,103,700</u>	<u>4,105,000</u>
<b>TOTAL ASSETS</b>	<b><u>\$ 9,965,006</u></b>	<b><u>\$ 8,026,600</u></b>	<b><u>\$ 6,751,800</u></b>	<b><u>\$ 6,786,800</u></b>
<b>LIABILITIES</b>				
Current Liabilities:				
Accounts payable	\$ 216,333	\$ 539,000	\$ 681,200	\$ 543,700
Accrued expenses and other payables	1,376,594	1,191,500	1,090,700	998,200
Lines of credit	-	23,000	200,000	-
Estimated third-party payor settlements	162,038	-	164,500	767,100
Deferred revenue	1,969,125	679,000	372,300	185,500
Current portion of long term debt	198,218	197,700	152,600	400,700
Current capital lease obligations	17,246	38,500	102,700	90,600
Total Current Liabilities	<u>3,939,554</u>	<u>2,668,700</u>	<u>2,764,000</u>	<u>2,985,800</u>
Long Term Liabilities				
Notes Payable less current portion	2,861,629	2,995,800	2,987,500	3,105,100
Capital lease obligations less current current maturities	26,114	37,900	76,400	128,800
Total Long Term Liabilities	<u>2,887,743</u>	<u>3,033,700</u>	<u>3,063,900</u>	<u>3,233,900</u>
<b>TOTAL LIABILITIES</b>	<b>6,827,297</b>	<b>5,702,400</b>	<b>5,827,900</b>	<b>6,219,700</b>
<b>NET ASSETS</b>				
Unrestricted	<u>3,137,709</u>	<u>2,324,200</u>	<u>923,900</u>	<u>567,100</u>
<b>TOTAL LIABILITIES &amp; NET ASSETS</b>	<b><u>\$ 9,965,006</u></b>	<b><u>\$ 8,026,600</u></b>	<b><u>\$ 6,751,800</u></b>	<b><u>\$ 6,786,800</u></b>

**Financial Ratios:**

	<u>Proforma (1)</u>			
	<u>FYE 2002</u>			
Debt Service Coverage (x)	3.75	4.42	1.89	1.01
L.T. Debt/Unrestricted Net Assets (x)	1.57	1.41	3.59	6.57
Margin (%)	7.10%	7.10%	2.04%	1.35%
Current Ratio (x)	0.91	0.91	0.68	0.68

(1) Recalculates June 2002 audited results to include the impact of this financing.

### **Financial Discussion:**

**DNC's income statement exhibits a positive trend in total revenues and increased net assets over the review period.**

Net income ranged from nearly \$200,000 for fiscal year 2000 to over \$1.4 million for fiscal year 2002, with solid operating margins. Revenue for the same period increased by approximately \$5 million primarily due to a 17.6 percent rise in patient encounters. Net patient revenues for fiscal year 2002 consist of \$9.7 million from Medi-Cal, \$1.9 million from Medicare, and \$2.8 million from private pay and insurance. Grant revenue consisted of over \$3 million from state grants, \$1.9 million from federal grants and the remaining from other grants.

**DNC's balance sheet, although slightly leveraged is strong with good liquidity and a very solid projected debt service coverage ratio of 3.75x.**

DNC's balance sheet is solid with good liquidity and significant net assets. DNC's strong liquidity is exhibited by its \$353,300 cash position in fiscal year 2002. DNC's net assets continue to grow and its debt-to-unrestricted net assets ratio for fiscal year 2002 is at 1.41x, and the current debt service coverage is a solid 4.42x. With the proposed HELP II loan, the proforma debt service coverage will be very good at 3.75x. This indicates that DNC will comfortably be able to meet future debt service payments. The unrestricted net asset balance has grown from \$567,100 in fiscal year 2000 to over \$2.3 million in fiscal year 2002 and has shown further improvement in the interim period.

### **III. UTILIZATION STATISTICS:**

Type of Services	Encounters and (Number of Patient Visits)					
	Year Ended December 31					
	2002		2001		2000	
Medical	159,947	(48,260)	154,481	(45,505)	133,837	(45,568)
Dental	38,038	(12,740)	33,926	(13,570)	34,468	(13,787)
Mental	2,589	(460)	1,917	(581)	-	-
Other	121	(49)	1,380	(67)	2,344	(215)
Totals	<b>200,695</b>	<b>(61,509)</b>	<b>191,704</b>	<b>(59,723)</b>	<b>170,649</b>	<b>(59,570)</b>

### **IV. ORGANIZATION:**

**Background:** DNC originated in 1964 in the form of a medical care project for migrant farm workers under the State Farm Workers Health Service and Migrant Health Act Fund. At that time it was called the Sutter-Yuba Farm Workers Health project, and the County of Sutter was grantee for the funds. It was operated as a night clinic in the Sutter County General Hospital. The name was changed to Northern Sacramento Valley Rural Health project in 1973 and in 1993 the corporate name was changed to Del Norte Clinics, Inc. DNC strives to provide high quality medical, dental, social and educational health services that meet the unique needs of all patients especially those who are medically underserved including farm workers and others without financial resources.

**Licenses:** DNC is licensed by the State Department of Health Services as a Community Clinic.

**Competition:**

DNC has 84.56% share of the market. The competitors closest to them in distance are:

<u>Name of Facility</u>	<u>Miles from DNC</u>	<u>% Share Market</u>
1. Feather River Tribal Health	0.5	3.08%
2. Planned Parenthood	2.4	4.27%
3. Richland Family Health Center	2.0	8.02%
4. Woman's Friend Clinic	2.0	0.07%

**V. OUTSTANDING DEBT:**

<u>Description</u>	<u>Original Amount</u>	<u>Amount Outstanding As of 6/30/02*</u>	<u>Estimated Amount Outstanding After Proposed Financing</u>
<b>Existing:</b>			
U.S Department of Agriculture	\$840,851	\$695,900	\$695,000
Larry Beigh & Ruth Fleury Loan	51,274	32,500	32,500
NCB Bank	100,419	69,800	69,800
US Bank	205,300	205,300	205,300
Local Medical Facilities Financing	1,105,000	1,070,000	1,070,000
CHFFA STARTS B	1,285,000	1,120,000	1,120,000
<b>Proposed:</b>			
CHFFA HELP II Loan, 2003		N/A	<b>376,000</b>
<b>TOTAL DEBT</b>	<b><u>\$3,587,844</u></b>	<b><u>\$3,193,500</u></b>	<b><u>\$3,569,500</u></b>

\*Amount Outstanding as of 6/30/02 includes the current portion of long-term debt.

**VI. SECTION 15438.5 OF THE ACT:**

DNC will save \$7,225 per year with this HELP II loan compared with a commercial loan rate of 6.5%. Over the life of the loan the savings will be \$36,125. DNC will use these savings to expand its existing level of services without raising rates.

**VII. LEGAL REVIEW:**

Staff has reviewed the Applicant's responses to the questions contained in the Legal Status portion of the Application. No information was disclosed to question the financial viability or legal integrity of this applicant.

**VIII. STAFF RECOMMENDATION:**

Staff recommends the Authority approve a resolution for a HELP II Loan in an amount not to exceed \$376,000 for a term not to exceed 5 years for Del Norte Clinics, Inc., subject to the standard HELP II loan provisions and Cal Mortgage's approval to incur additional indebtedness.